The Bank of Russia at the Crossroads: does the monetary policy needs easing

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Abstract

Recent slowdown of economic growth forces Russian political authorities to seek for policy measures to support economic activity. Monetary expansion is considered as one of the possible alternatives, which we consider inappropriate. During the whole post-crisis period monetary authorities of advances economies in their attempts to boost recovery relied heavily on different sorts of monetary stimulus. Thus it is sometimes argued that Russia should better use such kind of experience and shift to aggressive monetary expansion. This view is mostly wrong since it shows misunderstanding of the goals of the monetary easing policy implemented in advanced economies and also ignores the differences between Russia and advanced countries with respect to macroeconomic conditions. There are two main reasons for extraordinary monetary expansion in advanced economies: sizable cyclical recession and "zero lower bound" problem. Since none of these is present in Russia there's no reason for implementation of monetary easing policy.

JEL codes: E42, E51, E52, E58, E61, E63

Key words: Central Bank, monetary policy, monetary easing

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A period of rapid economic growth in Russia seems to have come to its end. The Ministry of Economic Development and Trade of Russia has made a long-term forecast in which annual average growth rate of the Russian economy is expected to range within 3.2% under an inertial scenario and 5.4% under an optimistic accelerated scenario through to 2030[1]. The forecast growth rate is much slower than the rates which the Russian economy saw in the pre-crisis period, when GDP average growth rate stood at 7% in the period between 2000 and 2008. Such a slow-growth forecast fails to meet the target to "annually gain at least 5-6% of GDP" set by President Putin in his message to the Federal Assembly late in 2012. Moreover, President Putin underlined the issue of 'long and cheap' money required for loans in the economy and asked the Government and Central Bank of Russia "to think over how to accomplish these objectives" with reference to the experience of the US Federal Reserve System and the European Central Bank. A report prepared by Sergei Glazyev[2], a nominee for chairmanship of the Central Bank of Russia, was published shortly after that. The report has a key proposal to retarget the monetary authorities towards "development and provision of more opportunities for loans to the real sector" through radical easing of the monetary policy. In the meantime, the Government of Russia is considering a possibility of assigning the Central Bank to stimulate economic growth.

The reference to the measures of regulators in developed countries is not the least argument in favor of easing the monetary policy of the Central Bank of Russia. It is the developed countries whose central banks made a clear-cut statement that they are independent and focused on stable inflation with minimal interventions in lending markets and refused to perform the function of economic growth locomotives. However, under the current sluggish economic dynamics they have switched to active monetary easing, including direct interventions in debt markets.

[1] МЭР Прогноз долгосрочного социально-экономического развития Российской Федерации на период до 2030 года // ((MEDT) Long-Term Socio-Economic Development Forecast in the Russian Federation Through to 2030)
http://www.economy.gov.ru/wps/wcm/connect/9cb190804f0500cd8e6fee008a11733f/%D0%9F%D1%80%D0%BE%D0%B3%D0%BD%D0%BE%D0%B7+2030_%D0%B8%D1%82%D0%BE%D0%B3-21032013.doc?MOD=AJPERES&CACHEID=9cb190804f0500cd8e6fee008a11733f

[2] Глазьев С. О целях, проблемах и мерах государственной политики развития и интеграции// (Glazyev S. On objectives, issues and measures of the national development policy and integration)
http://www.glazev.ru/econom_polit/305/

Those who advocate easing of the Bank of Russia monetary policy provide the following arguments. Why Russia should rely on the principles which the monetary authorities in developed countries choose not to follow? Instead, why Russia shouldn't follow the measures which the central banks in the United States, Great Britain, Japan, and European Union took to stimulate growth through money emission? Monetary policy easing advocates believe that the Bank of Russia should be transformed into an institution of development by making it a co-investor in economic growth. In addition, the Bank of Russia should be involved in the process of creating 'cheap money' like in the United States and European countries.

In fact, this point of view is untenable, because it relies upon wrong interpretation of the actions taken by regulators in other countries and misunderstanding of the principal differences in macroeconomic situation between Russia and developed countries. 'Unconventional' measures of the central banks in developed countries neither contradict the basic principles of their monetary policy, nor provide for radical revision of the role and usage of central banks as the principal generator of investment resources. The Bank of Russia shouldn't resort to the emission pumping strategy, because the problems which foreign central banks intend to solve through an ultra easy monetary policy are irrelevant for the Russian economy.

Monetary policy theoretical framework: new Keynesian monetary regime

The monetary policy practice in developed countries has deep theoretical and empirical roots. At present, it is the inflation targeting that is the most advanced and efficient monetary regime which is theoretically based on the so-called new Keynesian monetary policy concept[3].

The apprehension of macroeconomic dynamics as a sum of two components, namely trend and cyclic components, is fundamental in the economics. Long-term economic growth trend (potential growth rate) is governed by fundamental structural parameters of the economic system and, above all, production and human capital accumulation rates, technological progress, and other real factors. The cyclic component results from deviation from the trend under the effect of different macroeconomic shocks. When the economy is not effected by shocks, it is at the so-called 'potential level', growth rates are stable, the labor market shows 'full employment'. From this point of view all economic policy measures can be conventionally divided into two groups: structural and stabilization measures. Structural measures are aimed at providing long-

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[3] See
Blinder A. S. Central banking in theory and practice. – The MIT Press, 1999.
Clarida R., Gali J., Gertler M. The science of monetary policy: a new Keynesian perspective. – National Bureau of Economic Research, 1999. – No. w7147.
Gali J. Monetary Policy, inflation, and the Business Cycle: An introduction to the new Keynesian Framework. – Princeton University Press, 2009.
Goodfriend M., King R. The new neoclassical synthesis and the role of monetary policy //NBER Macroeconomics Annual 1997, Volume 12. – MIT Press, 1997. – pp. 231-296.

term economic development by influencing fundamental factors, whereas stabilization policy is intended to smooth macroeconomic fluctuations to ensure stable growth which is free from recessions and overheating. Indeed, the target and intensity of stabilization measures depend largely on a cycle stage. If the economy is below the 'potential', it needs a stimulating impulse, but stimulation must be replaced with cooling measures when the gap is eliminated and 'economic boom' begins.

What place does the monetary policy occupy in this classification? The concept of monetary policy targets, tools and channels of influence has been developed through a long period of evolution over the last century. Different types of monetary and currency regimes were applied in the world during that period: from the golden standard to modern inflation targeting. However, the economic science never questioned the fact that monetary policy can be exclusively stabilizing. Though money emission is a powerful and accessible tool, the effect of monetary easing is relatively short-lived. While it has no effect on structural macroeconomic parameters upon which long-term rates of economic development depend, it imposes distorting inflation tax on the economy. Such irrelevance of the monetary policy is known as the principle of 'long-term neutrality of monetary policy'.

Indeed, the neutrality principle – like, by the way, any other theoretical principle – shouldn't be regarded as a cure-all and taken too literally. Obviously, it is impossible to ignore long-term effects of monetary shocks. Many empirical studies in Latin America show that intemperance of monetary authorities can suspend inefficient economic conditions for a long time, thus having a long-term adverse effect on the development[4], whereas a prudent policy can help to improve uncertainty and accelerate economic growth. However, there is a certain asymmetry – a sound monetary policy alone gives no guarantee of radical growth in public welfare, while wrong monetary policy has a huge destructive potential.

Practically, the 'neutrality principle' means that monetary methods can solve an extremely small number of economic issues and can't replace fundamental reforms aimed at changing structural parameters of the economic system. Developed countries learned well from this lesson and eventually refused de facto to assign the central bank to stimulate long-term economic development through emission-based lending.

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[4] See the following empirical studies:
Barro R. J. Inflation and economic growth. – National Bureau of Economic Research, 1995. – No. w5326.
Roubini N., Sala-i-Martin X. Financial repression and economic growth //Journal of development economics. – 1992. – Vol. 39. – No. 1. – p. 5-30.
De Gregorio J. Economic Growth in Latin America //Journal of Development Economics. – 1992. – Vol. 39. – No. 1. – pp. 59-84.
De Gregorio J. Inflation, taxation, and long-run growth //Journal of Monetary Economics. – 1993. – Vol. 31. – No. 3. – pp. 271-298.

More independence for central banks was an important step towards distinguishing between fiscal and monetary policies. It is not an overstatement to say that all the institutional innovations in the monetary policy which have been introduced over the last thirty years were intended to limit as much as possible opportunities for misuse of monetary easing. In other words, it was admitted that it is exclusively personal, state or nonresident savings, not money emission, that should be the source of government and private investments.

It also means that the central bank shouldn't fall victim of investment-related uncertainty, i.e. its assets should be exposed to the lowest risk. It is important to underline that in this case the point is limited sources of such expansion rather than principle refusal from credit expansion as a mechanism of economic stimulation. If the government seeks to finance long-term infrastructure projects, it has to either allocate a part of tax revenues or enter the debt capital market. The same is also true with regard to the private sector – borrowed household or government savings should be the investment resource for this purpose. Within this cash cycle central banks are assigned to play a role of regulator to provide sustainability of the financial system.

Though central banks are not supposed to create investment demand for lending resources, they play a very important role in the economy. They are responsible for maintaining stable prices and promoting sustainability in the financial sector, as well as realizing the counter-cyclical policy. In fact, today it is the monetary-related interference that is regarded as the principal tool designed to combat cycles. Active interest rate policy encourages economic growth by reducing interest rates amidst recession and retaining the same through their increase during overheating. The dependence of monetary easing on a cycle stage is critical – as the economy regains its potential, monetary easing is discontinued and gives way to tightening when output exceeds the potential level.

Most explicit description of this is given by the so-called Taylor rule[5], the simplest example of the monetary policy rule. It describes the level of central bank's target interest rate according to a current inflation rate and output deviation from the potential. In other words, according to monetary authorities, the desired economic situation means stable inflation and economic growth rate corresponding to the potential growth rate.

The respective legislative framework has evolved following the same way – at present, monetary authorities in developed countries are authorized to provide predictable inflation, balanced growth and full employment as priority objectives[6]. In this context, the US legislation

[5] See Taylor J. B. Discretion versus policy rules in practice //Carnegie-Rochester conference series on public policy. – North-Holland, 1993. – Vol. 39. – pp. 195-214.

[6] 'Full employment' means an employment which promotes output which corresponds to the potential level, rather than a 100% employment of the entire working-age population.

requirement to the Federal Reserve System "to promote moderate long-term interest rates" is an anachronism and has long ceased to be guidance for the US regulator.

The described paradigm of monetary policy provides for lending to the banking sector through refinancing, because central banks are assigned to perform the function of lender of last resort. However, this channel of money infusion is designed for special situations when a solvent bank with high-quality asset portfolio runs short of liquidity but for some reasons can't or refuses to borrow in the interbank lending market. In such a case, it is the central bank that should provide liquidity for a short-term period and against a solid collateral. Refinancing in this case should only be an exceptional option rather than become a regular source of liabilities for banks.

If the central bank is limited to infusion of liquidity which is inherently short-term, then where money to finance long-term investment projects would come from? The answer is long money must be generated by the financial system itself. In fact, it is the transformation of predominantly short-term liabilities into long-term resources of financing of investment projects, thus being a most important function of the banking sector, that is most often ignored. Such a transformation due to a different term structure of assets and liabilities of financial intermediaries is related to the occurrence of liquidity crisis risks[7]. Central banks should take care to prevent such risks, and it is these cases that a refinancing safety mechanism is meant for.

Don't central banks generate long money through money emission by redeeming government bonds? Yes, they do, in a way. Indeed, government securities account for most of the regulator's asset portfolio in developed countries. The following two aspects are essential in this case. First, short-term securities prevail, whereas long-term securities account for a comparatively small share of central bank assets in normal situation. Second, the size of such emission-based lending should be taken into account. If the size of a government debt is a lot more than the size of regulator's assets, there is no point to speak of economically significant government emission-based lending. The same situation was observed in developed economies prior to the crisis of 2008-2009. What kind of changes were made because of the crisis? How does the current central banks' behavior correspond to the described concept? It does correspond in general.

Interpretation of 'unconventional monetary policy' measures

Three untypical lines of monetary policy should be pinpointed in the crisis response measures realized in developed countries since 2008. First, refinancing operations were extended

[7] A classic work on liquidity crises:
Diamond D. W., Dybvig P. H. Bank runs, deposit insurance, and liquidity //The journal of political economy. – 1983. – pp. 401-419.

considerably. It means that regulators increased considerably loan periods, relaxed collateral requirements for refinancing operations, as well as widened the list of financial institutions eligible to obtain loans from the central bank. Second, central banks issued target loans to support certain sectors and financial institutions, as well as acquired ‘unconventional’ assets, including securities issued by private issuers. As a result, risk-bearing instruments became to occupy a substantial share in their asset portfolios, which was not the case with the previous periods. Third, liquidity keeps being consistently pumped into the banking sector through redemption of basically long-term government bonds, thereby forcing down long-term interest rates[8].

Since the onset of the crisis some of the central banks have become market makers, key players in financial markets. Does it mean that they fail to comply with the principles which were previously declared by their managers and the academic community? It is the type and volume of interventions that suggests that central banks in developed countries decided to give up the previous paradigm of monetary policy at a critical juncture.

In fact, they did, in a way, but a new practice of monetary policy which has been in place over the last few years in developed countries shows that monetary authorities intend to achieve the previous objectives with the help of ‘unconventional’ instruments. The use of ‘unconventional’ instruments is governed exclusively by the fact that conventional instruments have ceased to be efficient amidst deep recession and unstable financial system. The central banks kept following their normal regime in the countries where the situation was not so heavy and conventional mechanisms were efficient.

For example, regardless of a serious economic recession of 2.8%, the Bank of Canada didn’t resort to unconventional monetary measures. A reduction of 0.25% in interest rates and simultaneous expansion of refinancing operations were sufficient to stabilize output. The Bank of Canada drastically reduced refinancing and raised interest rates, thereby completing its crisis response monetary maneuver, when the economy began to recover in 2010 (see Fig. 1). In contrast with Canada, Japan has resolutely given up its canonical monetary policy regime, the country has found itself in a desperate situation. Japan has failed to trigger steady growth, its prices have stood at the level of 1992, and stock indices at the level of mid-1980s over more than two decades.

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[8] Reviews of the crisis response measures of central banks in various countries are provided in the following literature:
Klyuev V., de Imus P., Srinivasan K. Unconventional Choices for Unconventional Times: Credit and Quantitative Easing in Advanced Economies. – 2009.
Borio C., Disyatat P. Unconventional monetary policies: an appraisal //The Manchester School. – 2010. – Vol. 78. – No. s1. – pp. 53-89.
Minegishi M., Cournède B. Monetary policy responses to the crisis and exit strategies. – OECD, 2010.

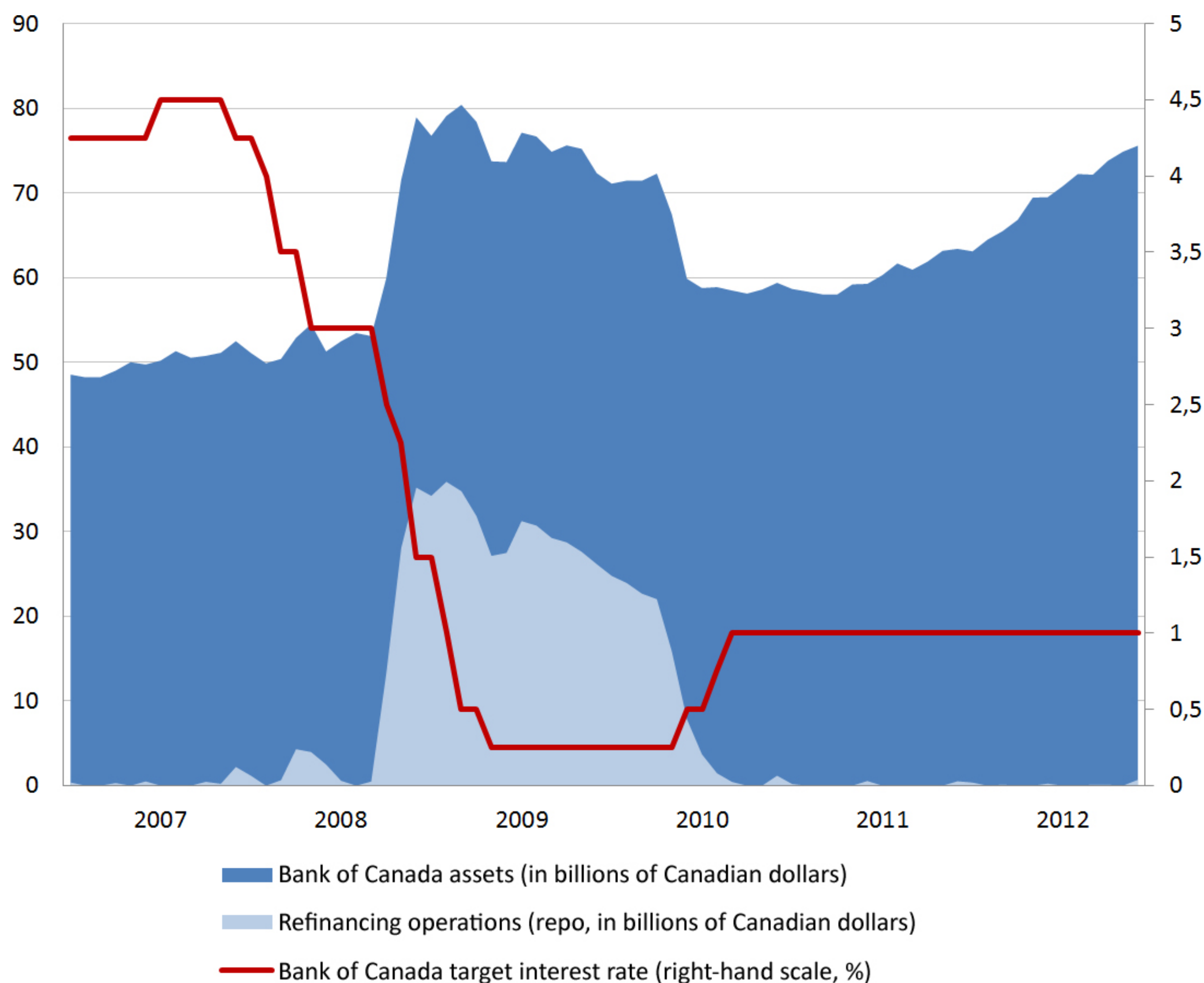

Fig. 1: Bank of Canada crisis response policy – interest rate reduction and refinancing expansion
Data source: Bank of Canada

Thus, though many central banks exceeded the scope of the standard new Keynesian regime and found themselves operating in the area of fiscal policy, such developments are considered as a least-evil, unwanted and, most importantly, tentative solution which is caused by cyclical recession. It would be absolutely wrong to interpret 'unconventional' measures of the central banks in developed countries as refusal to follow the policy of non-intervention in lending markets and a strategic choice in favor of interventionism. Monetary authorities keep seeing their principal goal in playing the role of crisis response operator rather than development institution.

In July 2008 the Federal Reserve opened a Maiden Lane I dedicated credit line for JP Morgan against the assets of Bear Stearns which was taken over by JP Morgan. Two similar dedicated credit lines, Maiden Lane II and Maiden Lane III, were opened afterwards to finance

the rescue of AIG. After that, the Federal Reserve also redeemed mortgage-backed securities at a price comparable to the issuance amount of these securities[9], i.e. in fact, the regulator acted as the largest lender for this segment. Never before the US regulator entered in its books such a big volume of risk-bearing assets. The Bank of Japan, European Central Bank, Bank of England, and other central banks made similar-type interventions at different times by redeeming corporate bonds, commercial papers, and other risk-bearing assets.

However, prior to making a conclusion on that the managers of the Federal Reserve and other regulators allowed their institutions to breach their own principles and take on fiscal policy which was previously untypical of their functions, it is important to understand the reasons for such a behavior of the monetary authorities. In fact, the Federal Reserve did perform the function which it was established for: prevent banking panic which may provoke collapse of the entire financial system[10]. Some of the distressed assets had to be redeemed in order to reduce risk premiums in the money market and recover normal functioning of the interbank lending process, i.e. to combat acute liquidity crisis. There was no direct fiscal reason for the provision of the real sector with accessible loans. The same logics was followed by multiple refinancing schemes created by central banks in 2008-2009 – they only replaced the paralyzed interbank lending market. Though central banks had to run a certain risk by accepting securities of private issuers as collateral, they could achieve their priority goals: stabilize the financial system.

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[9] See
Gagnon J. E. et al. Large-scale asset purchases by the Federal Reserve: did they work? //FRB of New York Staff Report. – 2010. – No. 441
[10] See
Madigan B. F. Bagehot's Dictum in Practice: Formulating and Implementing Policies to Combat the Financial Crisis //Jackson Hole Symposium on "Financial Stability and Macroeconomic Policy," August. – 2009. – pp. 20-22.
Bernanke B. S. The crisis and the policy response //Stamp Lecture, London School of Economics, January. – 2009. – Vol. 13.

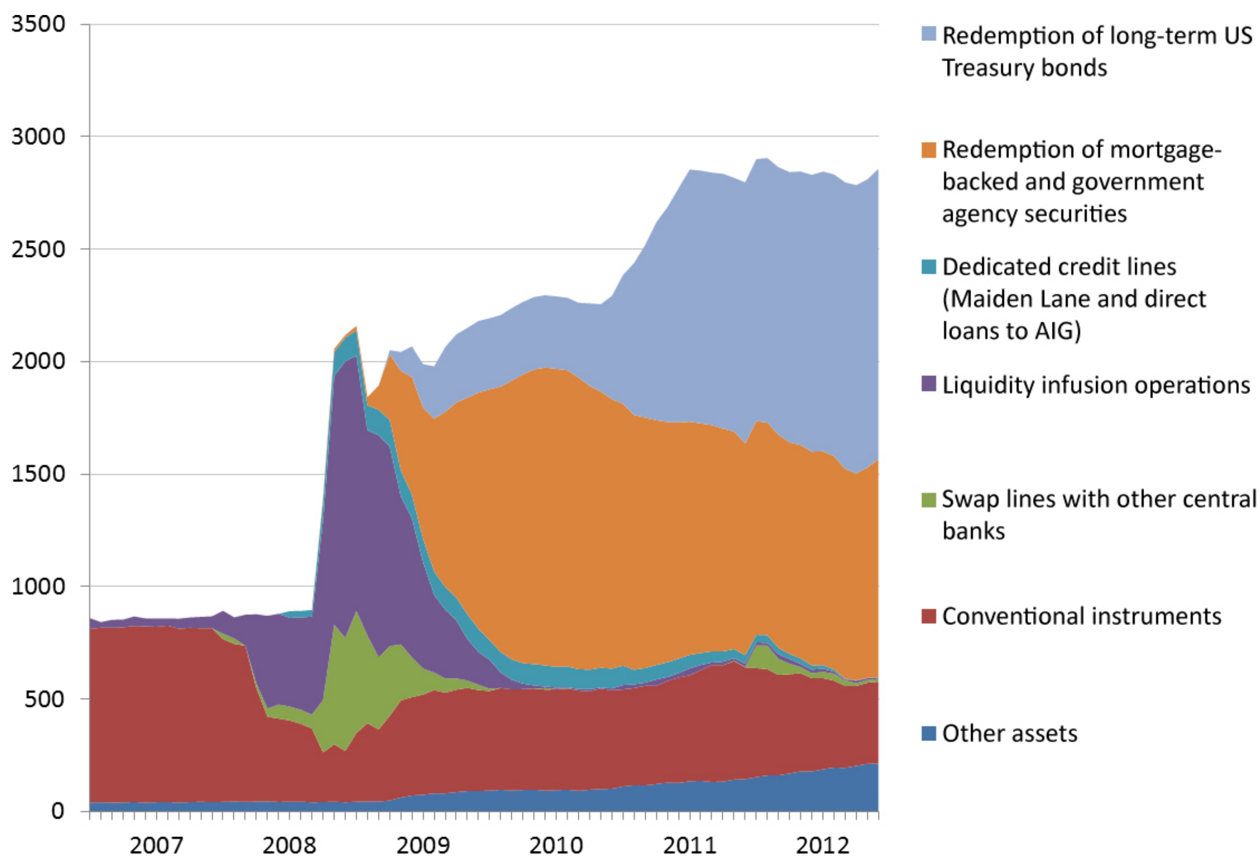

Fig. 2: Federal Reserve asset structure (in billions of US dollars)

Data source: FRB of Cleveland

It is characteristic that special liquidity pumping schemes were discontinued after the acute phase of the crisis was over. To date, Maiden Lane credit lines have been discontinued (see Fig. 2), thereby supporting the fact that the reason for refinancing was emergency aid rather than transition to the emission-based model of lending in the economy. Though the amount of conventionally risk-bearing mortgage-backed securities remains the same, a total of near $1 trillion, in the Federal Reserve's books, it accounts for one third of the Federal Reserve's assets, the regulator's managers realize that the situation is temporal, and these assets are to be sold as the US economy recovers.

Besides support to certain segments of the financial system and expansion of refinancing, monetary authorities universally implement quantitative easing programs. As a result, the Bank of Japan balance increased half as much, while the balance of the Federal Reserve and Bank of England tripled since the beginning of 2008. Money injections remain intensive. Such measures are often interpreted as long money emission-based pumping into the economy[11]. Though such a

[11] See
Ершов М. Мировая экономика: перспективы и препятствия для восстановления //Вопросы экономики. – 2012. – No. 12 (Ershov M. Global economy: Recovery prospects and barriers // Voprosy ekonomiki. – 2012. – No. 12)

conclusion seems to be reasonable, it is not quite correct. First, the money which is put into circulation will be sterilized at the stage of recovery, i.e. there is no reason to believe that the money will be long. Second, interventions are intended to basically reduce market long-term interest rates, where longer duration of central banks' asset portfolio is only the effect of these.

Within the framework of the standard new Keynesian model of monetary policy the central bank manipulates the short-term interest rate, thus having an effect on the long-term interest rate which governs economic activity and investment demand. When the short-term interest rate is close to zero and can't be reduced, where long-term interest rates are too high, all that is left for the regulator to do is influence long-term interest rates through operations in the open market. It is these considerations that rule monetary authorities when they issue money to purchase bonds with a maturity of more than 5 years[12]. No interventions in the long-term securities market took place in the countries which faced no 'zero line' issue.

Such a purchase is not equal to long-term lending to the real sector, because central banks have no intention to invest their 'own funds' in the economy and replace the banking sector with themselves, they rather seek to become an accelerator to recover the lending market. As soon as the economy experiences a new round of steady growth, long-term assets would be sold, the central bank balance would gradually be reduced, and the money market short-term interest rate would resume its role as the principal instrument in the monetary policy.

The history already saw a central bank passing through a full cycle of crisis response quantitative easing, when the phase of stimulating money emission and redemption of long-term government bonds gave way to the phase of excessive money supply sterilization after macroeconomic dynamics began to improve. An example of this is the Bank of Japan and the policy it pursued in the first half of the 2000s[13].

Indeed, the situation with the monetary sector in Great Britain, European Union, United States, let alone Japan, is far from being normal. All largest economies are currently under the threat of the Japanese scenario developments. In this case, stagnation would last longer and economic activity would increasingly rely on money interventions. As a result, central banks would have to further ease and reverse the standard monetary regime. However, it should not be a reason for developing economies to give up this regime, because it proved efficient in many countries, e.g. Canada, Australia, Korea, South Africa, Norway, Chile, etc.

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[12] See
Bernanke B. Five questions about the Federal Reserve and monetary policy //The Economic Club of Indiana, Indianapolis. – 2012. – Vol. 1.

[13] See
Syed M. H., Yamaoka H. Managing the Exit: Lessons from Japan's Reversal of Unconventional Monetary Policy //IMF Working Papers. – 2010. – pp. 1-14.

Situation and outlooks in the Russian monetary sector

What can Russia use from the package of measures taken in developed countries? Should the Bank of Russia reduce interest rates to close-to-zero values, perform a set of quantitative easing or radically expand refinancing operations? The answer is no, it shouldn't, because there are no reasons for such actions.

Irrespective of the widely-held view, the Bank of Russia's policy can't be considered hard-line. When adversaries of the Central Bank's policy blame it for being too modest, they compare the refinancing rate in Russia, which is currently 8.25%, with that in developed countries, where it is close to zero. Such a comparison is incorrect, because it uses nominal rates. Analysis of the real refinancing rate would show that it has been quite moderate since the mid-2000s (see Fig. 3).

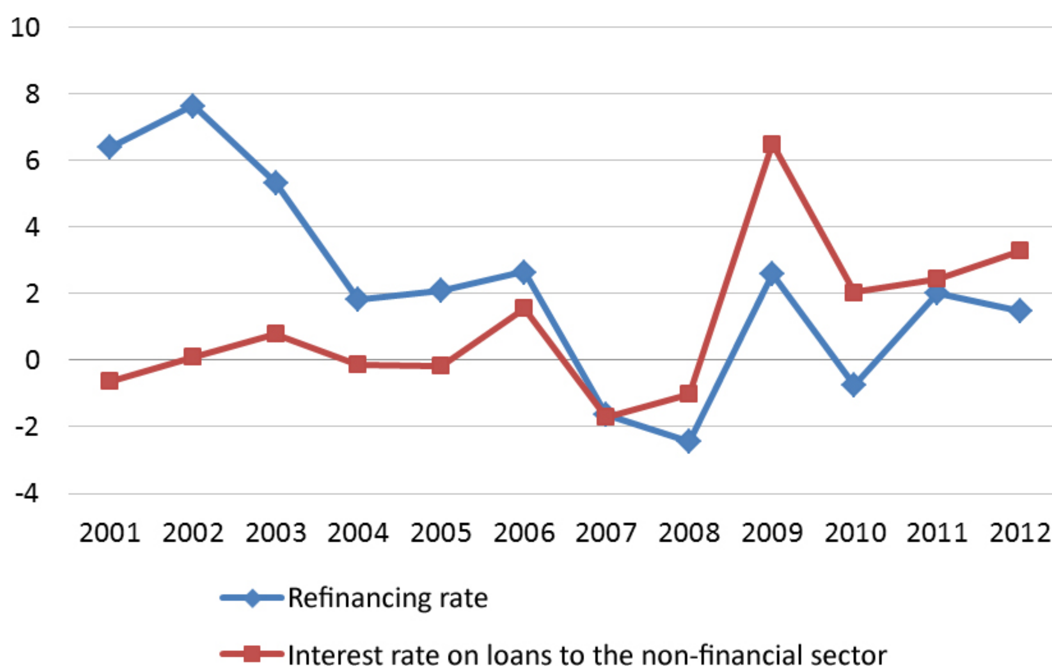

Fig. 3: Refinancing rate and interest rate on loans to the non-financial sector in real terms (%, interest rate annual average values are presented, interest rate on loans to the non-financial sector was calculated for all loans, save for Sberbank)

Data source: Central Bank of Russia, authors' calculations

And, most importantly, the refinancing rate in Russia doesn't reflect real value of lending resources. A real indicator of money market condition is the short-term interbank lending rate which ranged near the floor of the Central Bank interest rate corridor[14] and was very negative in real terms over the most part of the 2000s (see Fig. 4). It exceeded 6% only in a

[14] It should be noted that the Central Bank interest rate corridor was not important for the money market until the onset of the crisis of 2008 – 2009, when amounts of refinancing of the banking system increased rapidly. In addition, the ceiling of the corridor is the Lombard rate which is much smaller than the refinancing rate.

period of acute crisis phase in response to credit contraction and financial instability, but then again fell to the floor of the corridor. Given that inflation never fell below 6%, such a monetary policy can hardly be considered other than adaptive. It is just now that money market real rates are moving towards positive values as inflation declines, the Central Bank deposit rate increases, and transition to liquidity structural deficit begins. Therefore, there is no reason whatsoever to blame the Bank of Russia for pursuing an overly hard-line policy.

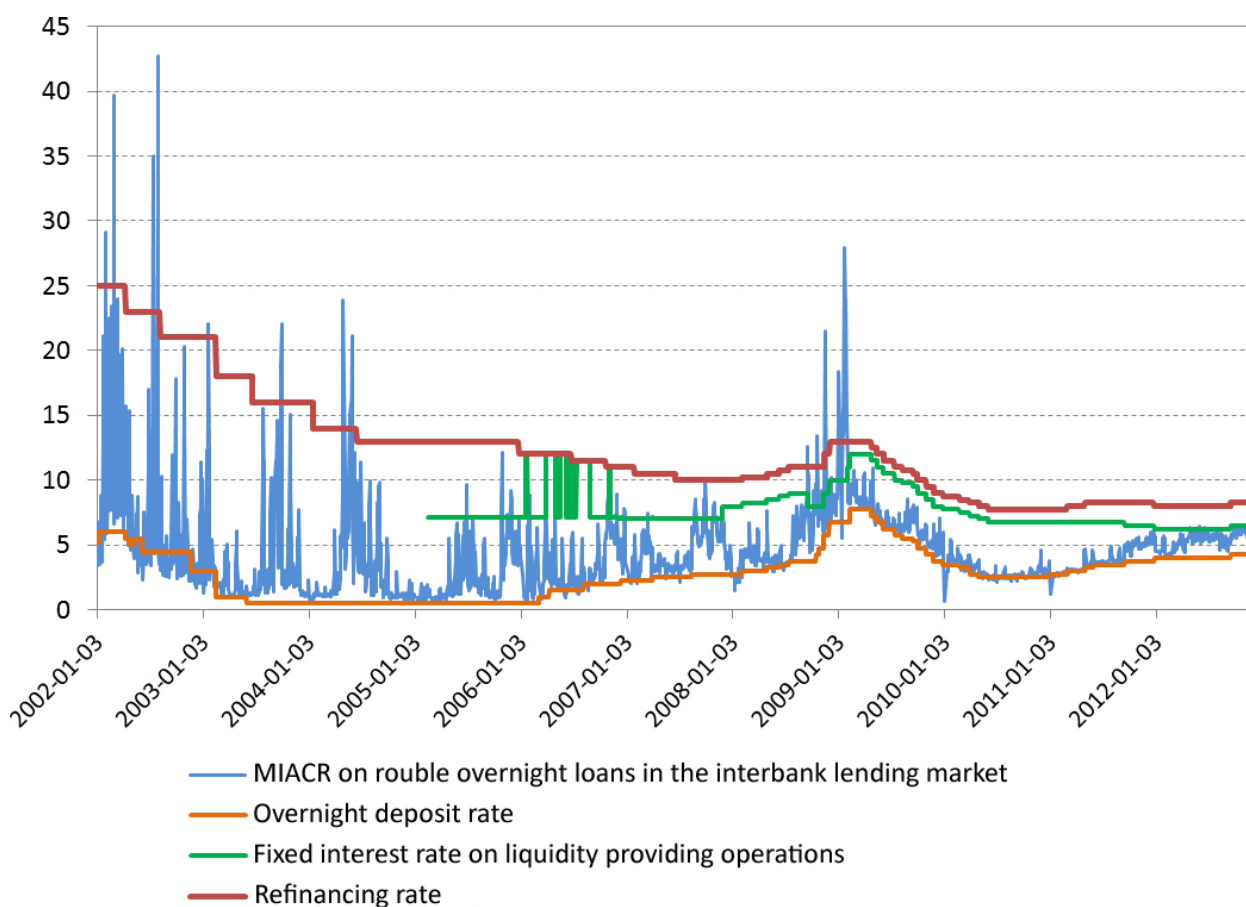

Fig. 4: Interbank market lending rate and the Central Bank interest rate corridor (% p.a.)

Data source: Central Bank of Russia, authors' calculations

Furthermore, there is no reason to believe that borrowing costs are unprecedentedly high in Russia. Real lending rates in the pre-crisis period were the lowest not only among the BRICS countries, but also globally. Though the situation changed after 2009, when real cost of debt servicing increased markedly, it isn't higher than that in other developing economies (see Fig. 5). However, 'a very expensive loan' is not a barrier for economic growth in the Russian Federation,

where 71% of enterprises have access to debt financing under acceptable terms and conditions, whereas only 4% of them believe that lack of borrowings slows down their development[15].

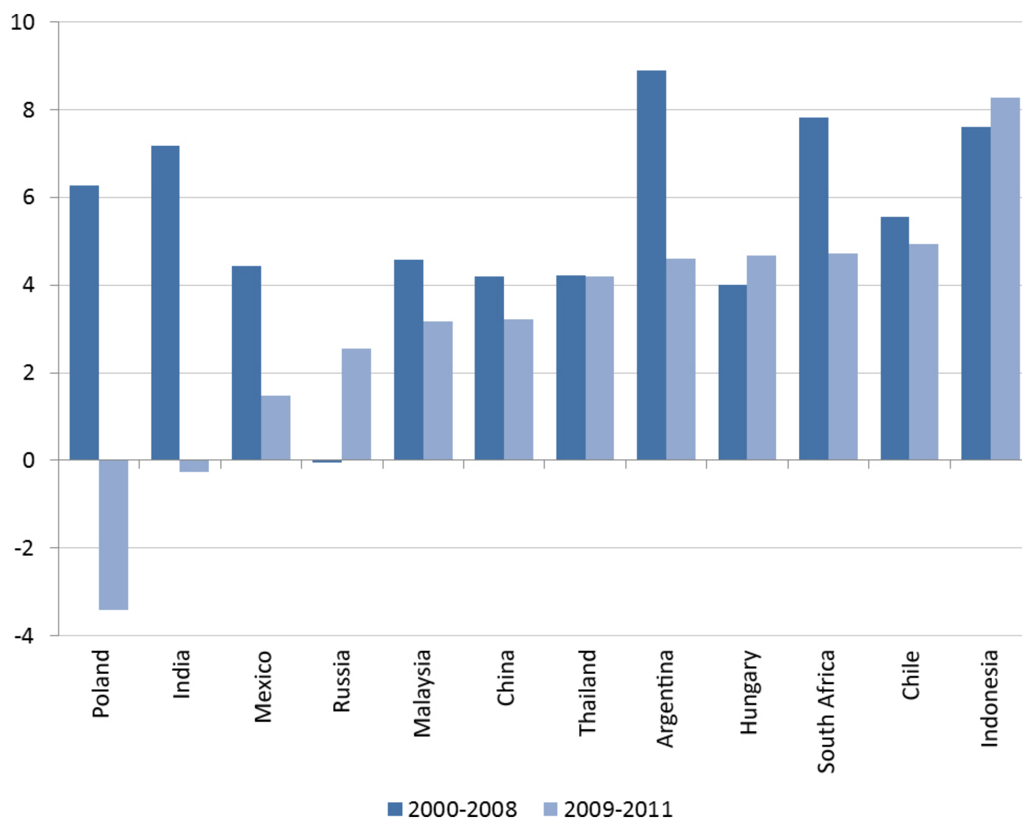

Fig. 5: Real interest rates on loans to the financial sector

(average values in 2000 thru 2008 and 2009 thru 2011, %)

Data source: World bank, IMF, authors' calculations

By making reference to the current experience in Europe and the fact that regulator must be the lender of last resort, opponents of the Central Bank's current course suggest that the normal financing function should be changed by turning financing as correction mechanism into a source of cheap and long-term liabilities for banks[16]. The use of money emission to finance economic breakthrough allots monetary authorities to solve fiscal policy[17], thereby being in

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[15] See Цухло С. Российская промышленность в январе 2013г.// Экономическое развитие России. – 2013 – No. 3, 2013 (Tsukhlo S. Russian industry in January 2013// Ekonomicheskoye razvitiye Rossii. – 2013 – No. 3, 2013 // http://www.iep.ru/files/text/RED/Russian_Economic_Developments_03_2013.pdf

[16] See Глазьев С. О целях, проблемах и мерах государственной политики развития и интеграции. (Glazyev S, Objectives, issues and measures of the national development and integration policy) // http://www.glazev.ru/econom_polit/305/

[17] The strategy for expansion of target financing operations is described in detail in S. Glazyev's report "Objectives, issues and measures of the national development policy and integration". Target financing expansion means explicit transition to financing of economic breakthrough through money emission. The program is based on purely

violent contrast to the situation in developed countries which have travelled a long way towards dividing fiscal policy from monetary policy.

Now that the monetary authorities in developed countries are pumping liquidity into the economy, they also discussing exit strategy from the super ease monetary regime[18]. They realize that the current easing regime will give way to its tightening at the stage of recovery, whereas advocates of the Central Bank's policy ignore subsequent tightening, they offer neither time nor quantitative frames for emission-based pumping. It proves that they view monetary policy easing as a lever to accelerate long-term growth rather than a stabilizing tool, their comprehension of monetary policy being in stark contrast to that of the world's leading central banks.

A perfect illustration of different comprehension of the monetary policy function is alternative interpretation of the mondustrial policy term which refers to Federal Reserve target lending to systemically important financial institutions and certain debt market segments. This term has a positive meaning in the Russian literature, and the target emission-based lending policy is considered desirable for Russia[19]. However, the author of this term, professor J.B. Taylor at Stanford University, is ill-disposed to such a policy[20], he believes that monetary authorities shouldn't deviate from the standard monetary policy model [21]. Furthermore, Russian analysts often ignore the fact that mondustrial policy-related measures of central banks[22] are originally meant to be temporal by regulators in developed countries.

Indeed, the central bank should provide the banking sector with liquidity, but the lack of long-term investment resources is not to be confused with liquidity deficit which is inherently short-term. Russia does run short of accessible long money. According to the World Bank, the domestic bank loans to GDP ratio is 39% in Russia, thereby corresponding to the average level in poor countries. Credit penetration is much higher in the countries whose economic

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administrative logics of reallocation of resources whose deficit is to be covered with monetary pumping, while exclusively directive methods are recommended to solve potential problems. The strategy provides no institutional aspect which includes a project on the creation of market-based economy mechanisms which could operate efficiently in a standalone mode.

[18] See Minegishi M., Cournède B. Monetary policy responses to the crisis and exit strategies. – OECD, 2010. Borio C., Disyatat P. Unconventional monetary policies: an appraisal //The Manchester School. – 2010. – Vol. 78. – No. s1. – pp. 53-89.

[19] Ершов М. Мировая экономика: перспективы и препятствия для восстановления //Вопросы экономики. – 2012. – No. 12. (Ershov M. Global economy: Recovery prospects and barriers // Voprosy ekonomiki. – 2012. – No. 12)

[20] See
Taylor J. B. The need to return to a monetary framework //Business Economics. – 2009. – Vol. 44. – No. 2. – pp. 63-72.

[21] See
Taylor J. B. The financial crisis and the policy responses: An empirical analysis of what went wrong. – National Bureau of Economic Research, 2009. – No. w14631.

[22] The Funding for Lending program launched by the Bank of England is an element of such policy. The program is intended to stimulate lending to the real sector, in which case the Bank of England assumes partially the credit-related risk. See the Bank of England's explanatory note
http://www.bankofengland.co.uk/markets/Documents/explanatory_notefls120713.pdf

development is comparable with Russia. On average, this indicator stands at 156% in the European Union, 45% in Mexico, 69% in Turkey, 75% in India, 98% in Brazil, 145% in China, 167% in South Africa (see Fig. 6).

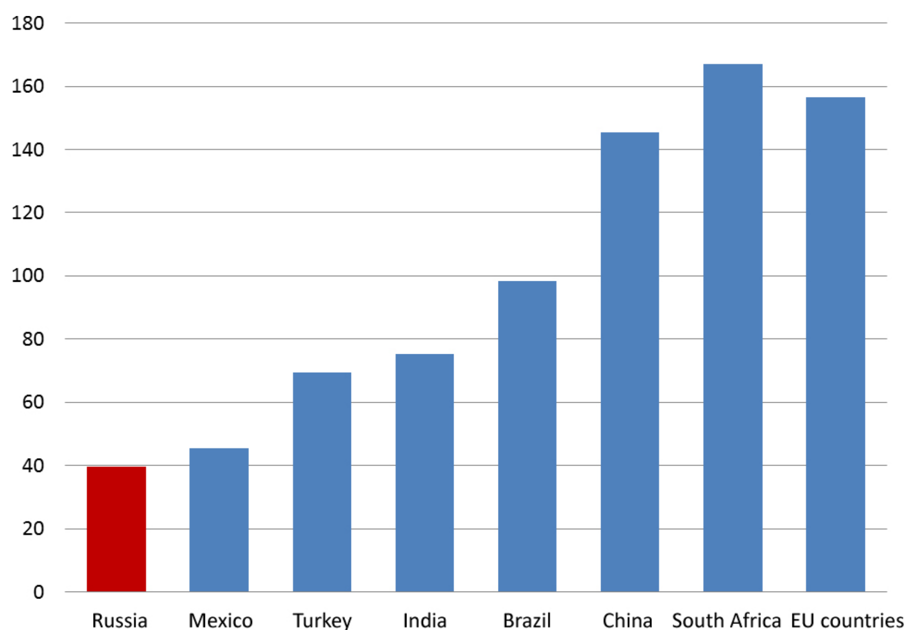

Fig. 6: Bank loans to GDP ratio (in 2011, %)

Data source: World Bank

However, the reason for such lag is weak financial system rather than hard-line monetary policy, which is unable to perform its principal functions to efficiently transform short-term saving liabilities into long-term investment assets. It is the financial sector immaturity that is responsible for low level of monetization of the Russian economy and the loan to GDP ratio. Though a steady relation between economic growth rates and a share of domestic lending in GDP[23] has been established, it only reflects the fact that a more advanced financial sector can be more efficient in stimulating economic development. Such surveys are not to lead to a conclusion that artificial pumping of money into inefficient banks can provide the required impulse to growth.

No radical changes are needed in the general monetary policy course of the Bank of Russia for the time being. The strategic course towards the transition to inflation targeting and the use of short-term interest rate as the principal instrument is correct, because this monetary regime proved efficient in other countries. Indeed, it doesn't mean that the central bank should ignore completely such indicators as unemployment, economic growth rates, and production gap.

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[23] Levine R. Financial development and economic growth: views and agenda //Journal of economic literature. – 1997. – Vol. 35. – No. 2. – pp. 688-726.

Quite the opposite, all these indicators are included into the standard new Keynesian monetary regime.

If under the effect of external factors or for other reasons the Russian economy would find itself under the threat of a significant cyclic recession, the Bank of Russia should definitely reduce interest rates and expand refinancing. Even in this case, however, inflation rate should be taken into account in making decision to reduce interest rates. Low economic growth rates alone shouldn't be a reason for monetary easing, let alone the transition to the quantitative easing policy.

Disapproval of the 'passive' emission policy due to the fixed foreign exchange rate regime was another way of criticism against the Central Bank of Russia. To date, however, the Bank of Russia has almost given up the mid-2000s emission model under which foreign currency buy-up to replenish the international reserves was the principal emission channel. It should be noted that a big share of foreign currency instruments in the regulator's assets is not unusual, since this is typical of both Russia and developing economies in general (see Fig. 7).

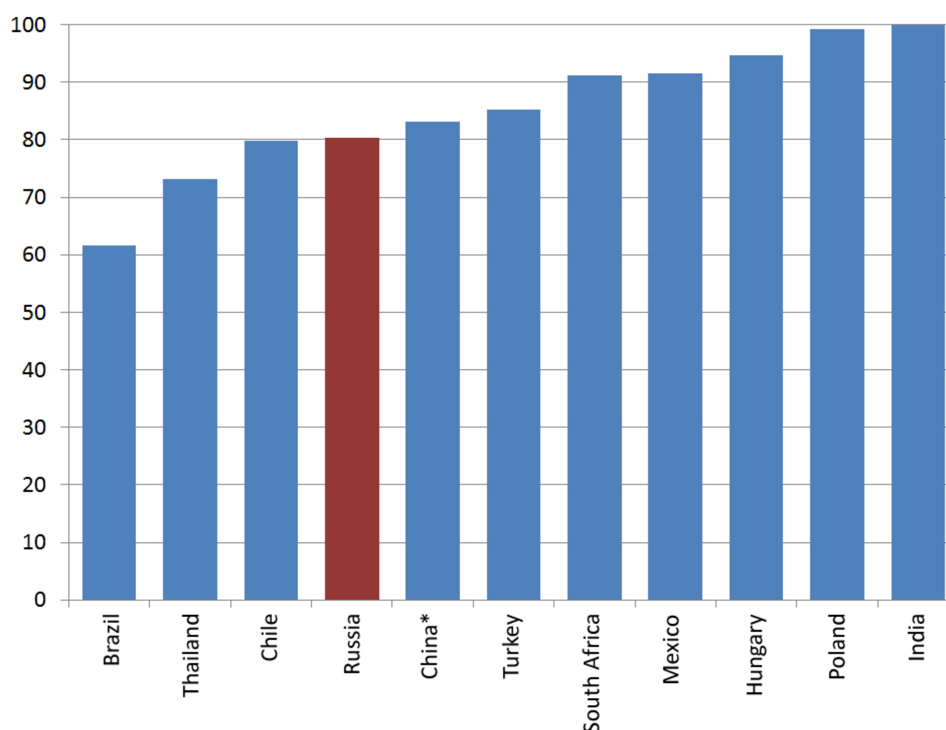

Fig. 7: A share of currency instruments in the central banks' assets in different countries (as of the beginning of 2013, * – the data as of the end of 2010)

Data source: central banks' official websites.

It is obvious today that in decades to come economic growth rates will no longer be as high as in the 2000s. At such moments government authorities are much more tempted to deviate

from hard-line reforms which lay the foundation for steady long-term development, and, being forced by lobbyists, try to spur economic growth by relying upon administrative measures and 'cost-free' emission sources of financing. It is wrong to rely upon monetary easing as the foundation of growth, even though we put aside the question of whether Russia should be geared to a risk-bearing breakthrough strategy or follow a more conservative course towards moderate but stable development. It remains to be seen which way is to be chosen by the Russian political elite.